

PRIVILEGED & CONFIDENTIAL

LETTER AGREEMENT

This Letter Agreement ("Agreement") is intended to address and particularize the commitments that will be undertaken and completed by D.C. Chartered Health Plan, Inc. and D.C. Healthcare Systems, Inc. (collectively, "Chartered") to provide health and educational benefits for the citizens of the District of Columbia (the "District"). The Office of Attorney General for the District of Columbia ("OAG"), acting at the direction and discretion of the Mayor of the District of Columbia, and Chartered (hereinafter, collectively, the "Parties") agree that the commitments will be completed during the time period(s) set forth below. In consideration of the mutual promises, covenants, and obligations set forth below, and for good and valuable consideration as stated below, and with the intent that the mutual promises, covenants, and obligations set forth herein constitute a contemporaneous exchange for new value within the meaning of 11 U.S.C. § 547, the Parties agree as follows:

1. **Commitments of Chartered**

a. **United Medical Center Reimbursement Rates**

Chartered has provided a retroactive rate increase of 25% to UMC for the time period March 18, 2008 – July 27, 2008 and agrees to maintain this rate for the next three (3) MCO Contract Years. Nothing in this Agreement prevents UMC and Chartered from negotiating a reimbursement rate increase higher than 25%.

b. **District of Columbia Immunization Program**

Chartered agrees to assist in immunizing District citizens pursuant to the District of Columbia Department of Health Immunization Program. The District will not be billed in any way for these services. Chartered undertakes to pay the District \$200,000 annually for five (5) years beginning January 1, 2009. After funding for the first year, on an annual basis, OAG will provide Chartered with a letter confirming the fact that the funds have been used as contemplated and a description of how the District has used the funds and that the immunization services were actually performed in accordance with program requirements. Funding for each successive year shall be conditioned upon receipt by Chartered of such letter. ③ #11

c. **District of Columbia Public Schools/Physical Education**

To enhance the physical education of the students of the District of Columbia Public Schools ("DCPS"), Chartered agrees to provide \$500,000, annually, to the District Public Education Fund (a 501(c)(3) organization) for five (5) years, beginning three (3) months after the Effective Date of this Agreement. After funding for the first year, on an annual basis, OAG will provide Chartered with a letter confirming the fact that the funds have been used as contemplated and a description of how the District has used the funds

and that the physical education was actually conducted according to DCPS program requirements. Funding for each successive year shall be conditioned upon receipt by Chartered of such letter.

d. **Health Care Community Service Events and Programs**

Chartered agrees to provide funding to non-profit organizations and community service agencies for health care related community service events and programs including, but not limited to:

- i. Sponsorship of the Anacostia Community Fitness Center; and
- ii. Dissemination of Public Service Announcements and other social services related to health and fitness that will include, but not be limited to, education about asthma, obesity, diabetes, and HIV/AIDS and other health care issues and support and sponsorship for programs and events that benefit the community.

The funding commitment for these community service events and programs shall be \$350,000, annually, for five (5) years, beginning January 1, 2009. After each year of funding, on an annual basis, OAG will provide Chartered with a letter confirming the fact that the funds have been used as contemplated and that the programs and services were performed by the various non-profit organizations and community service agencies. Funding for each successive year shall be conditioned upon receipt by Chartered of such letter.

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2. Chartered agrees to submit a written report, on a quarterly basis, to the OAG, regarding the status of all projects described in Paragraph 1. The first report will be due three (3) months following the Effective Date of this Agreement.

3. The Parties agree that the term of this Agreement is for five (5) years.

4. If there is a change of circumstances to Chartered's normal course of business that adversely affects Chartered's financial conditions, then the undertakings in the Agreement will be subject to re-negotiation.

5. None of the payments or funding under paragraphs 1(b) - (d) of this Agreement will be reported as an administrative expense of the Chartered MCO in Chartered's financial submissions to the District as an expense that would qualify for inclusion in an annual administrative fee rate adjustment. Chartered will verify, on an annual basis, that it has not included any funding for undertakings in this Agreement as an administrative expense of the MCO for the purpose of an administrative fee rate adjustment.

6. The payment commitments made herein may be paid by D.C. Chartered Health Plan, Inc. or D.C. Healthcare Systems, Inc. and these commitments are guaranteed by Jeffrey E. Thompson personally.

7. This Agreement shall be binding upon the Parties, their successors, transferees, heirs, and assigns.

8. Chartered represents that this Agreement is freely and voluntarily entered into without any degree of duress or compulsion whatsoever.

9. This Agreement constitutes the complete agreement between the Parties. This Agreement may not be amended except by written consent of the Parties.

10. The Parties agree that this Agreement is governed by the laws of the District of Columbia. The Parties agree that the exclusive jurisdiction and venue for any dispute arising between the Parties under this Agreement shall be the Superior Court for the District of Columbia.

11. The Parties agree that the Superior Court for the District of Columbia shall have jurisdiction to enforce the terms of this Agreement and that if the District should prevail, Chartered shall pay the District's reasonable attorneys' fees and costs.

12. This Agreement is effective on the date of the last signatory to this Agreement ("Effective Date").

D.C. CHARTERED HEALTH PLAN,
INC.

BY:

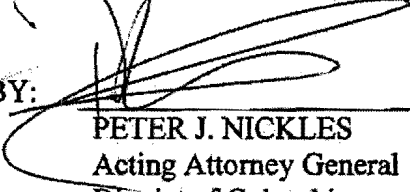

JEFFREY E. THOMPSON
Chairman of the Board

Date:

9/26/08

THE DISTRICT OF COLUMBIA

BY:


PETER J. NICKLES
Acting Attorney General
District of Columbia

GEORGE VALENTINE
Deputy Attorney General
Office of Attorney General
District of Columbia
441 4th Street, NW
Washington, DC 20001

Date:

9/26/08

D.C. HEALTHCARE SYSTEMS, INC.

BY:


JEFFREY E. THOMPSON
Chairman of the Board

Date:

9/26/08

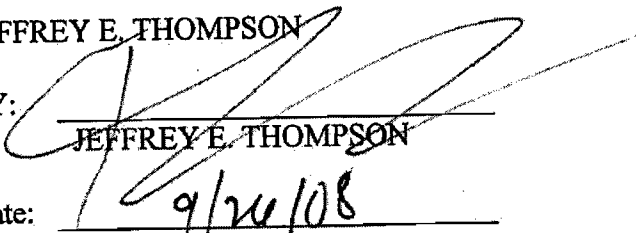
JEFFREY E. THOMPSON

BY:



JEFFREY E. THOMPSON

Date:



9/26/08

SETTLEMENT AGREEMENT AND MUTUAL RELEASE

This Settlement Agreement ("Agreement"), effective as of the date it is fully executed, is entered into by and between the District of Columbia, acting through the Office of the Attorney General for the District of Columbia ("OAG"), and on behalf of the District of Columbia Department of Health, Medical Assistance Administration ("MAA") (collectively, the "District"), and D.C. Healthcare Systems, Inc. ("DCHSI") through their authorized representatives. The District and DCHSI are sometimes hereinafter collectively referred to as the "Parties," and may be referenced singularly as a "Party."

PREAMBLE

As a preamble to this Agreement, the Parties agree to the following:

A. WHEREAS, the District is a municipal corporation created by an Act of Congress and is the local government for the district constituting the seat of government of the United States. D.C. Official Code § 1-102 (2001).

B. WHEREAS, DCHSI is a healthcare investment company with its principal place of business in the District of Columbia. D.C. Chartered Health Plan, Inc. ("Chartered"), a managed care organization ("MCO") that coordinates and arranges for health care services, is a wholly owned subsidiary of DCHSI; and

C. WHEREAS, DCHSI has decided to settle contractual disputes as described in Paragraph 3 with the District for the period January 1, 2001 through and including April 30, 2008 with respect to Contracts #POHC-2002-D-0005 (4/1/02 to 4/30/08) and Contract HC0C0-139346 ended 3/31/02 between the District and Chartered relating to the provision of managed health care services.

D. This Agreement is neither an admission of liability by Chartered nor a concession by the District that any disputes it may have had with Chartered were not well founded.

E. In order to avoid the delay, uncertainty, inconvenience, and expense of any protracted disputes, the Parties have reached a full and final agreement as set forth below:

TERMS AND CONDITIONS

NOW THEREFORE, in consideration of the mutual promises and covenants contained in this Agreement, the Parties agree as follows:

1. Permanent and Binding Resolution. This Agreement is a permanent and binding accord and resolution of the rights and obligations of the Parties with respect to all matters that are the subject of this Agreement.
2. Payment. DCHSI agrees to pay to the District \$ 12 million (Twelve Million Dollars) (the "Contract Disputes Settlement Amount"). DCHSI agrees to pay the full Contract Disputes Settlement Amount to the District by electronic funds transfer pursuant to written instructions to be provided by the District. DCHSI agrees to make this electronic funds transfer no later than fifteen (15) days after this Agreement is executed by the Parties. In the event of default or delay in payment, interest at the rate of 5% (simple) per annum shall accrue from the date of the default or delay to the date of payment. The payment of the Contract Disputes Settlement Amount is guaranteed by Jeffrey E. Thompson.
3. Release by the District. Upon receipt by the District of the Contract Disputes Settlement Amount and in exchange for the promises herein which the District acknowledges as good and valuable consideration, and except as provided in paragraph 5, the District, and its

affiliated agencies (including but not limited to MAA and the Office of Contracting and Procurement ("OCP")), successors, assigns, agents, and the past, present, and future officers, directors, employees, agents, attorneys, independent contractors, and representatives of any of them (all in their capacities as such) ("the District Releasers") shall immediately, and without any further action required, be deemed to have released and discharged DCHSI, and its subsidiaries, wholly-owned corporations, affiliated entities, related parties, successors, assigns, principals, agents and predecessors (all in their capacities as such) and all of their former and present officers, directors, employees, agents, attorneys, independent contractors, shareholders, and representatives of any kind (hereinafter, the "DCHSI Released Parties") from any and all actions, disputes, claims, and demands of every kind and nature, without limitation and including any known or unknown claims, at law, in equity, or administrative, which they may have had, now have, or may have, by reason of any matter or thing (i) arising out of the calculation of capitation rates paid by the District to Chartered in connection with Contract #POHC-2002-D-0005 for the period January 1, 2001 to April 30, 2008 and Contract HC0C0-139346 ended 3/31/02 for the provision of health care services and including but not limited to the direct or indirect submission of certain information, including cost data and the certification of cost data, to the District and its affiliated entities (including MAA and OCP and any of their agents or representatives) that may have been used to develop or affect the calculation of capitation rates and (ii) arising from certain related party transactions between and among DCHSI and its subsidiaries and affiliated entities and transactions between Chartered and any parties in interest concerning Contract #POHC-2002-D-0005 for the period January 1, 2001 to April 30, 2008 and Contract HC0C0-139346 ended 3/31/02 for the provision of health care services (hereinafter referred to as the "Covered Conduct").

4. Release by DCHSI Released Parties. Immediately upon the release by the District Releasors and in exchange for the promises herein which the DCHSI Parties acknowledge as good and valuable consideration, and except as provided in paragraph 5, the DCHSI Released Parties shall immediately, and without any further action required, be deemed to have released and discharged the District Releasors from any and all actions, debts, dues, claims and demands of every name and nature, without limitation, at law, in equity, or administrative, which they may have had, now have, or may have, by reason of any matter or thing arising out of the Covered Conduct, including any known or unknown claims.

5. Non-Released Claims. Notwithstanding any term of this Agreement, specifically reserved and excluded from the scope and terms of this Agreement as to any entity or person (including DCHSI) are the following claims:

- a. Any liability to the District (or its agencies) for any conduct other than the Covered Conduct;
- b. Any liability based upon such obligations as are created by this Agreement;
- c. Any claims against any other person or entity not expressly released by this Agreement; and
- d. Any criminal liability.

6. Chartered Will Not Seek Billings. DCHSI will cause Chartered to waive and not to seek payment for any of the health care billings covered by this Agreement from any health care beneficiary or their parents, sponsors, legally responsible individuals, or third party payors other than insurance carriers. DCHSI also will cause Chartered to waive any causes of action against these beneficiaries or their parents, sponsors, legally responsible individuals, or third-party payors other than insurance carriers based upon the claims for payment covered by this Agreement.

7. Compliance Program. DCHSI shall cause Chartered to continue to comply with its current Compliance Program and agrees that the Compliance Program includes the following items:

a. The period of the compliance obligations assumed by Chartered under this Agreement shall be five (5) years from the Effective Date of the Agreement, unless otherwise specified. Each one-year period, beginning with the one-year period following the Effective Date of the Agreement shall be referred to as a "Reporting Period."

b. Within 60 days after the Effective Date of this Agreement, Chartered shall designate a Compliance Officer. The Compliance Officer shall be responsible for developing and implementing policies, procedures, and practices designed to ensure compliance with the requirements set forth in this Agreement, the MCO Contract, and District and Federal Medicaid program requirements. The Compliance Officer shall be a member of senior management of Chartered and shall report directly to the President and Board of Directors of Chartered. The Compliance Officer shall make periodic (at least quarterly) reports regarding compliance matters directly to the President and Board of Directors of Chartered. The

Compliance Officer shall be responsible for monitoring the day-to-day compliance activities engaged in by the Chartered MCO as well as any reporting obligations created under this Agreement. Chartered shall report to MAA, in writing, any changes in the identity or position description of the Compliance Officer, or any actions or changes that would affect the Compliance Officer's ability to perform the duties necessary to meet the obligations in this Agreement within 15 business days after such a change.

c. Within 90 days after the Effective Date of this Agreement, Chartered shall establish a Compliance Committee. The Compliance Committee shall, at a minimum, include the Compliance Officer and other members of senior management necessary to meet the requirements of this Agreement, that is, managers of relevant departments, such as billing, clinical, human resources, audit, and operations. The Compliance Officer shall chair the Compliance Committee and the Committee shall support the Compliance Officer in fulfilling his/her responsibilities. Chartered shall report to MAA, in writing, any changes in the composition of the Compliance Committee, or any actions or changes that would affect the Compliance Committee's ability to perform the duties necessary to meet the obligations in this Agreement within 15 business days after such a change.

d. Within 120 days after the Effective Date of this Agreement, Chartered shall distribute its written Principles of Responsibility or Code of Conduct (collectively, "POR") to:

i. All owners, officers, directors, members of the Board of Directors, and employees of Chartered;

ii. All contractors, subcontractors, agents, vendors, and other persons who provide direct patient care items or services on behalf of Chartered or who perform billing or coding functions on behalf of Chartered for more than 160 hours per year in a facility that is owned, rented, managed, or leased by Chartered; and

iii. All physicians employed by, contracted with, or who own shares of Chartered or DCHSI (hereinafter, "Relevant Covered Persons").

8. POR as Element of Employee Performance. Chartered shall make the promotion of, and adherence to, the POR an element in evaluating the performance of all employees. The POR or the policies and procedures referenced therein shall, at a minimum, set forth:

a. The requirements in the MCO contract and the Federal and District Medicaid program regarding contracting with related parties; submission of financial data to MAA or the District's actuary; unallowable administrative costs; and misclassification of costs;

b. Chartered's commitment to full compliance with all MCO Contract and District and Federal Medicaid program requirements, including its commitment to prepare and submit accurate financial data, claims, and any other reports consistent with such requirements;

c. Chartered's requirement that all of its Relevant Covered Persons shall be expected to comply with all MCO Contract, and District and Federal Medicaid program requirements, and with Chartered's own policies and procedures as implemented pursuant to this Section;

d. All of Chartered's Relevant Covered Persons shall be strongly encouraged to report to the Compliance Officer or other appropriate individuals designated by Chartered suspected violations of the District and Federal Medicaid program requirements of Chartered's POR or Chartered's own policies and procedures;

e. The possible consequences to both Chartered and Relevant Covered Persons of failure to comply with District and Federal Medicaid program requirements and with the POR and Chartered's own Policies and Procedures and the failure to report such noncompliance; and

f. Chartered's commitment to non-retaliation and to maintain, as appropriate, confidentiality and anonymity with respect to such disclosures.

Within 30 days after the issuance of the POR, each Relevant Covered Person shall certify, in writing, that he/she (1) received, read, understood, and shall abide by Chartered's POR, and (2) understands that he/she is required to report any suspected compliance or ethics concerns of which he/she becomes aware. New Relevant Covered Persons shall receive the POR and shall complete the required certification within 30 days after becoming a Relevant Covered Person.

9. Review of POR. Chartered shall periodically review the POR, at least annually (and more frequently, if appropriate) to determine if revisions are appropriate and shall make any necessary revisions based on such review. Any revised POR shall be distributed within 30 days after any revisions are finalized. Within 30 days after the distribution of the revised POR, each Relevant Covered Person shall certify, in writing, that he/she is required to report any suspected compliance or ethics concerns of which he/she becomes aware.

10. POR Training. Within 120 days after the Effective Date of this Agreement, Chartered shall provide at least two hours of General Training to each Relevant Covered Person.

This Training, at a minimum, shall explain Chartered's:

- a. Obligations under this Agreement;
- b. Chartered's Compliance Program (including the POR and policies and procedures as they pertain to general compliance issues);
- c. Applicable statutes, regulations, and program requirements and directives regarding Medicaid MCOs;
- d. The MCO Contract and District and Federal Medicaid program requirements regarding contracting with related parties; submission of financial data to MAA or the District's actuary; and
- e. The legal sanctions for violations of the MCO Contract and District and Federal Medicaid program requirements.

New Relevant Covered Persons shall receive this training within 30 days after the beginning of their employment. After receiving the initial training, each Relevant Covered Person shall receive at least two (2) hours of training annually concerning the subjects in Paragraph 8 above. Each individual who is required to attend training shall certify in writing or in electronic form, if applicable, that he/she has received the required training. The certification shall specify the date the individual received training.

11. Review of POR training. Chartered shall annually review the training and, where appropriate, update the training to reflect changes in the MCO Contract and District and Federal Medicaid program requirements.

12. MCO Contract Compliance. Chartered will comply with the requirements for related party transactions under the Contract #DCHC 2007-R-5050 beginning May 1, 2008.

13. Implementation Report for Compliance Program.

a. Within 150 days after the Effective Date of this Agreement, Chartered's Compliance Officer shall submit a written report to MAA summarizing the status of its implementation of the requirements of the Compliance Program in this Agreement ("Implementation Report"). The Implementation Report shall, at a minimum, include:

- i. The name and identifying information of the Compliance Officer;
- ii. The names, positions, and identifying information of the Compliance Committee;
- iii. A copy of the POR;
- iv. The number of individuals required to complete training; the percentage of individuals who have completed training; and an explanation of any exceptions;
- v. A description of the training.

b. For each Reporting Period, beginning with the one-year period following the date of the Effective Date of this Agreement, Chartered's Compliance Officer will submit an

annual report to MAA with respect to the status of, and findings regarding, Chartered's compliance activities for each of the five (5) Reporting Periods ("Annual Report"). Each Annual Report shall include, at a minimum:

i. Any change in the identity, position description, or other noncompliance job responsibility of the Compliance Officer, and any change in the membership of the Compliance Committee;

ii. A summary of any significant changes or amendments to the POR and the reasons for such changes and copies of any new POR;

iii. The number of individuals required to complete the POR training, the percentage of individuals who have completed such certification, and an explanation of any exceptions (the documentation supporting this information shall be available to MAA, upon request);

iv. A summary and description of contracts with related parties; and

v. A summary describing any ongoing investigation, legal proceeding, or adverse, final determination against Chartered.

The first Annual Report shall be received by MAA no later than 120 days after the end of the First Reporting Period. Subsequent Annual Reports shall be received by MAA no later than the anniversary date of the due date of the first Annual Report.

14. District Access. In addition to any other rights the District may have by statute, regulation, or contract, the District or its duly authorized representative(s) may examine or request copies of Chartered's books, records, and other documents and supporting materials

and/or conduct on-site reviews of any of Chartered's locations at reasonable times for the purpose of verifying and evaluating: (a) Chartered's compliance with the terms of this Agreement; and (b) Chartered's compliance with the MCO Contract and District and Federal Medicaid program requirements. The documentation shall be made available to the District or its duly authorized representative(s) at reasonable times for inspection, audit, or reproduction. Furthermore, for purposes of this provision, the District or its duly authorized representative(s) may interview any of Chartered's employees, contractors, or agents who consent to be interviewed at the individual's place of business during normal business hours or at such other place and times as may be mutually agreed upon between the individual and the District. Chartered shall assist the District or its duly authorized representative(s) in contacting and arranging interviews with such individuals upon the District's request. Chartered's employees may elect to be interviewed with or without a representative of Chartered present.

15. Document Retention. Chartered shall maintain for inspection all documents and records relating to rate calculation from the Medicaid program, or to compliance with this Agreement, for six (6) years from the Effective Date of this Agreement (or longer if otherwise required by law).

16. Parties Bear Their Own Costs. Except as expressly provided to the contrary in this Agreement, each Party shall bear its own legal and other costs incurred in connection with this matter, including the preparation and performance of this Agreement.

17. No Admission of Wrongdoing. The Parties agree that they are entering into this Agreement solely as a business decision for the purposes of resolving any actual or potential disputes between them. This Agreement is the product of informed negotiations. Nothing

contained in this Agreement shall be construed as an admission by any Party as to the merit or lack of merit of any particular theory relating to any issue raised by the District with respect to the Covered Conduct. Statements made in the course of negotiations have been and shall be without prejudice to the rights of the Parties in any disputes or transactions with any other persons or entities not party to this Agreement.

18. Commitment on Future Contracts. With respect to contracts between the District and Chartered for periods after May 1, 2008, DCHSI shall cause Chartered to abide by the contract terms regarding related party transactions and to honor its obligations and responsibilities to maintain compliance with all contracts.

19. Warranties.

a. The individuals signing this Agreement on behalf of DCHSI represent and warrant that they are authorized by DCHSI to execute this Agreement and bind the Parties for whom he or she has signed. The District signatories represent that they are signing this Agreement in their official capacities and that they are authorized to execute this Agreement and bind the Parties for whom he or she has signed.

b. The District warrants that 70% of the Contract Disputes Settlement Amount will be transferred to the United States as reimbursement for the federal share of Medicaid dollars.

c. Chartered warrants that it has reviewed its financial condition and that it is currently solvent within the meaning of 11 U.S.C. §§ 547(b)(3) and 548(a)(B)(ii)(I).

20. Confidentiality. The District and DCHSI agree that neither they nor anyone acting on their behalf will disclose this Agreement, or its terms and conditions, except that the parties may make disclosures required by legal process, including FOIA requests, and requests by other governmental agencies, and may disclose this Agreement to their attorneys, accountants and/or financial advisors as necessary to prepare tax returns or other filings required by law.

21. Non-Disparagement. The District and DCHSI Released Parties agree that neither they nor anyone acting on their behalf will negatively disparage any of the parties released under this Agreement.

22. Entire Agreement. Except as explicitly set forth in this Agreement, there are no representations, warranties, or inducements, whether oral, written, expressed or implied, that in any way affect or condition the validity of this Agreement or any of their conditions or terms. This Agreement represents the complete agreement between the Parties. All prior negotiations, including oral or written agreements, are merged in this Agreement.

23. Authorship. The Parties agree that this Agreement reflects the joint drafting efforts of both Parties. In the event any dispute, disagreement or controversy arises regarding this Agreement, the Parties shall be considered joint authors and no provision shall be interpreted against any Party because of authorship. Each Party also agrees that it is fully informed as to the meaning and intent of this Agreement and has been advised by independent counsel of its choosing in that regard.

24. Execution. This Agreement may be executed in counterparts, each of which constitutes an original and all of which constitutes one and the same agreement.

25. Amendment. This Agreement may not be amended or modified except by a written instrument signed by the duly authorized representatives of the Parties.

26. Headings. The headings in this Agreement are for convenience only and are not to be considered a construction of the provisions hereof.

27. Severability and Governing Law. If any provision of this Agreement, with the exception of the provision for payment, is found to be invalid, unenforceable or void for any reason, such provision shall be severed from the Agreement and shall not affect the validity or enforceability of the remaining provisions. This Agreement shall be interpreted, enforced and governed by the laws of the District of Columbia. The Parties agree that the exclusive jurisdiction and venue for any dispute arising between and among the Parties under this Agreement will be the Superior Court for the District of Columbia and the District of Columbia Court of Appeals. In any action to enforce the terms of this Agreement, if the District should prevail, DCHSI shall be liable for the District's attorneys' fees and costs.

28. This Agreement is effective on the date of the last signatory to this Agreement ("Effective Date").

29. This Agreement shall be binding upon the Parties, their successors, transferees, heirs, and assigns.

30. If payment of the Contract Disputes Settlement Amount is not made to the District for any reason, then the terms and conditions of this Agreement shall be null and void, and the District may take appropriate action for the claims covered by the releases in this Agreement.

IN WITNESS WHEREOF, the Parties have executed this Agreement by their duly
authorized representatives.

Date: 9/26/08

DISTRICT OF COLUMBIA

By: [Signature]

Print: Peter A. F. A. [Signature]

Title: Acting Attorney General

D.C. HEALTHCARE SYSTEMS, INC.

By: [Signature]

Print: JEFFREY E. THOMPSON

Title: CHAIRMAN

Date: 9/26/08